

# Exhibit A



## FEEDLOT COLLATERAL INSPECTION REPORT

Client Information							
Relationship Name:	7M Cattle Feeders, Inc., McClain Feed Yard, Inc.						
Obligation Number:	22117434, 22114482		Address:	2546 Co Rd 15; FM 1057			
WW-ID:	604357		City State:	Frona, TX 79035; Hereford, TX 79045			
Sector:	Beef Cattle Ranching and Farming		Main Contact:	Brian McClain			
Fiscal Year End:	Dec 31		Email:	mcclainfarms@gmail.com			
Bank Information & Inspection Information							
Rabobank LQC:	OLEM		Report Date:	4/27/2020			
R - Rating:	R16		Inspection Date(s):	4/23/2020			
RAF Region/Territory:	Northeast-East		Cutoff Date:	3/31/2020			
RAF Office:	Evansville, IN		Prior Inspection Date(s):	01/18/2019			
MD/BDM-FAM:	Dan Villwock - Jeff Abbey		Lead Inspector:	Trey Miser			
RM1 & RM2:	Chip Lawson		Inspection Team:				
FA:	Jason Dunn		Next Internal Review:	06/01/2020			
RCO:	Doug Williams		Next Maturity or Annual Review Date:	06/01/2020			
GM:	Nathan Thomsen		Frequency:	Annual unless otherwise determined by Credit/LFR			
Recommendations				Significant Risks/Concerns noted			
Recommendations Made	Rating	Quantity		Client has made improvements to record keeping since last inspections, however, needs to double check work before submission. No significant concerns noted.			
Informational/Green	1	1					
Technical/Amber	2	1					
Material/Red	3						
Total:		2					
Sign off of AFCID Team Lead or Head of AFCID and Viewpoint							
Sign Off:	Date:		27-Apr-20	Viewpoint/Opinion			
			Team Lead has reviewed the collateral inspection report. She agrees with the recommendations of the inspector. Client is providing supporting documentation. With additional support from CRT borrowing base should not have as many minor discrepancies				
Facility Information							
RLOC(s):	Facility No.	Maturity Date	RAF Commitment	Total Commitment	Principal Balance	Accrued Interest on Principal (excludes default interest)	Default Interest
Facility 1 RLOC	22117434	6/1/2020	\$ 7,200,000	\$ 7,200,000	\$ 7,142,854		
Facility 2 RLOC	22114482	1/0/1900	\$ 15,800,000	\$ 15,800,000	\$ 15,076,847		
Total Exposure:	4		\$ 23,886,838	\$ 23,886,838	\$ 22,219,700		
Borrowing Base Structure:		Type	Frequency				
		Non-Restrictive Borrowing Base (Combined Only)	Monthly				
<p>This Inspection Report is for the exclusive use and benefit of Rabo AgriFinance and affiliates. To the extent that this report may be delivered to any party other than Rabo AgriFinance, it has been delivered to such party pursuant to its request and may not be distributed by such party to any other person without Rabo AgriFinance's prior written consent. Each recipient of this report shall maintain the confidentiality of the contents of this report. Rabo AgriFinance shall have no responsibility or liability for any loss, damage, or claim arising from any use of this report. Each recipient of this report is solely responsible for satisfying itself as to the creditworthiness, assets, and affairs of the persons and entities referred to in this report.</p>							
THIS REPORT IS NOT TO BE RELEASED TO ANY PERSON OR ENTITY OUTSIDE OF RABO AGRIFINANCE AND ITS AFFILIATES WITHOUT THE REQUIRED INTERNAL APPROVALS.							
<p>The Recommendations within this report may contain proprietary information of the company inspected as well as judgments and opinions of the Agricultural Field&amp; Collateral Insp. Dept. This information is for the sole use and benefit of Rabo AgriFinance &amp; its affiliates. This report with recommendations is not for release to the borrower or to others outside Rabo AgriFinance &amp; its affiliates.</p>							

**7M Cattle Feeders, Inc., McClain Feed Yard, Inc.**

**EXECUTIVE SUMMARY**

The Agricultural Field and Collateral Inspection Department (AFCID) was engaged to perform a standard inspection of the collateral to secure the existing loan to 7M Cattle Feeders, Inc., McClain Feed Yard, Inc. ("McClain" the "Company" or the "Borrower"). The collateral inspection was completed by a staff inspector on 4/22/2020. Due to the current environmental conditions created by the COVID -19 pandemic this inspection was limited to in-depth desktop review of all documentation that is standard with a normal inspection. The primary Company contact was President, Brian McClain. A phone interview was performed with Brian McClain as he also provided requested documentation. The company was receptive to the AFCID inspector and cooperation was found to be good. The Inspector had conversations with SR RM Lawson prior to and upon completion of the inspection, along with RCO Williams to gather more information on areas of focus.

The Company is required to prepare monthly, non-restrictive, combined Borrowing Base Certificates (BBC) for presentation to Rabo AgriFinance (Lender) within 20 days of month end.

The scope included a review of the March 31, 2020 Borrowing Base Certificate (BBC), the current herd and feed inventories, as well as discussions around accounts receivables, accounts payable, assigned cash accounts with any outstanding transactions and current loan balances. The Inspector did not have financial statements readily available for the inspection, as the fiscal year end 2019 compiled statements had not yet been completed by Hoyle Partain & Co. Client uses Hoyle Partain & Co for financial reporting and consultation.

	<b><i>Borrower Reported</i></b>	<b><i>Credit Application</i></b>	<b><i>Inspection</i></b>
<b>Gross Eligible Collateral</b>	\$ 32,344,107	\$ 31,963,480	\$ 31,963,480
<b>Net/Margined Eligible Collateral</b>	\$ 27,058,775	\$ 26,748,148	\$ 26,748,148
<b>RLOC Outstanding</b>	\$ 22,288,422	\$ 22,219,700	\$ 22,219,700
<b>Gross Collateral Margin</b>	\$ 10,055,686	\$ 9,743,780	\$ 9,743,780
<b>Net/Margined Collateral Margin</b>	\$ 4,770,353	\$ 4,528,448	\$ 4,528,448
<b>Loan/Gross Eligible Collateral %</b>	69%	70%	70%
<b>Loan/Net Eligible Collateral %</b>	82%	83%	83%

**Company Prepared:** Indicates reporting as provided by the Company to the Lender.

**Credit Agreement:** Adjustments made to Company prepared reporting per requirements of the Credit Agreement. This column highlights the client's compliance with documented terms and conditions.

**Inspection:** Based on AFCID scope, RAF standard collateral criteria and industry practice, or where specific risks have been identified. Some adjustments may differ from credit approved terms and/or legally documented terms and are provided for informational purposes only.

<b>Borrowing Base Category</b>	<b>Bank Documentation \$ Adjustments</b>	<b>Inspection \$ Adjustments</b>
<b>Accounts Receivable</b>	\$ (350,000)	\$ (350,000)
<b>Outstanding Transactions</b>	\$ (30,627)	\$ (30,627)
<b>Loans Outstanding</b>	\$ 68,721	\$ 68,721
<b>Totals</b>	\$ (311,906)	\$ (311,906)

After three adjustments, BBC reflected a net collateral margin of \$4.528M. The aggregate advance rate as of the cutoff date totaled 70%.

After the interview with management, the Company appears to have the proper controls in place to properly prepare the BBC for presentation to Lender, however, extra caution should be taken to double check and validate entries before submission.

All cattle inventory claimed as owned by the Company and viewed on the date of inspection were valued in this report based on (1) mark-to-market cost to finish basis, (2) Cattle Fax Regional Price or (3) similar publicly reported regional

price as appropriate for the operation. All feed inventory claimed were valued in this report based on the lesser of Borrower's cost or market.

Additional recommendations as of the result of the inspection findings are summarized below as:

- Level I/Green Recommendations
  - Next Annual inspection will be scheduled to occur in March 2021.
- Level II/Amber Recommendations
  - Rabo AgriFinance should be named as loss payee on appropriate insurance policies.

I hereby certify that I have personally examined the borrowing base collateral, cattle, feed, crops, receivables, payables and inspected the operations of the Borrower. I further certify that I am not related to the Borrower, have no interest in the loan(s) applied for, and the foregoing summary and hereinafter is a true report of my findings.

Date Inspection Completed 4/22/2020

*Trey Miser*

Trey Miser

Agriculture Field/Collateral Inspector

## **OPERATION OVERVIEW**

McClain Feedyard is located in Hereford, TX and 7M Cattle Feeders is located in Friona, TX (approximately 25 miles apart) and is managed/owned by Brian McClain, who lives in Benton, KY. The Company primarily buys lightweight calves and stocker cattle in the southeastern United States and ships them to the Texas Panhandle locations to grow to marketing weight and condition health for optimal performance. Cattle are bought weighing from 400-600 pounds via sale barns and private treaty sales, grown and conditioned, then contracted to livestock agent, Riley Livestock, Mayfield, KY, (well-known RAF customer) for sale to commercial feeding companies. The primary off taker is Friona Industries, LP, Amarillo, TX who owns Texas and Kansas feed yards. Brian McClain is responsible for duties and has been in the cattle business his entire life. He prepares the borrowing base each month with help from his daughter Meagan. McClain Feedyard has been operated for over 10 years and 7M Feeders was purchased in the last two years to expand the operation. This model takes advantage of sourcing cattle in the southeast at cheaper prices, using expertise of the Client to grow in weight at minimal cost and then re-selling to a large off taker with large supply needs. The operation is run efficiently with production being above-average. Management capability is deemed average, due to high skill in sourcing and handling cattle. Since the last inspection, improvements have been made in record keeping, however, the Client is very busy day to day, so double checking reporting will be key to supplying accurate records.

## **FACILITY OVERVIEW**

A review of bank documentation noted no concerns or discrepancies. Approved structures match credit agreement definitions or amendments.

McClain Feedyard facility sheet advance rate per the Credit Agreement is defined as follows:

**1.03 Maximum Amount.** The aggregate unpaid principal balance of the Loans must not exceed the lesser of: (i) \$15,800,000.00 or (ii) the Operating Line of Credit 1 Borrowing Base:

**1.04 Borrowing Base.**

(a) "Operating Line of Credit 1 Borrowing Base" means the sum of:

- (i) 80% of Eligible Accounts Receivable, plus
- (ii) 75% of the Eligible Cattle Value of Eligible Cattle, plus
- (iii) 100% of the Eligible Demand Deposit Accounts, plus
- (iv) 75% of the Eligible Feed and Grain Inventory, plus
- (v) 85% of the Eligible Cattle Value of Eligible Hedged Cattle, minus
- (vi) 100% of Related Payables and Liabilities, minus
- (vii) 100% of Book Overdraft/Outstanding Pending Transactions

7M Cattle Feeders facility sheet advance rate per the Credit Agreement is defined as follows:

**1.03 Maximum Amount.** The aggregate unpaid principal balance of the Loans must not exceed the lesser of: (i) \$7,200,000.00 or (ii) the Operating Line of Credit 2 Borrowing Base:

**1.04 Borrowing Base.**

(a) "Operating Line of Credit 2 Borrowing Base" means the sum of:

- (i) 80% of Eligible Accounts Receivable, plus
- (ii) 75% of the Eligible Cattle Value of Eligible Cattle, plus
- (iii) 100% of the Eligible Demand Deposit Accounts, plus
- (iv) 75% of the Eligible Feed and Grain Inventory, plus
- (v) 85% of the Eligible Cattle Value of Eligible Hedged Cattle, minus
- (vi) 100% of Related Payables and Liabilities, minus
- (vii) 100% of Book Overdraft/Outstanding Pending Transactions

**FINDINGS****Cattle Inventory**

<i>Description</i>	<i>Category</i>	<i>Head</i>	<i>Value</i>	<i>% Total</i>	<i>Mkt / Unit</i>
McClain	Hedged	20,613	\$20,073,041	66%	974
McClain	UnHedged	0	\$0	0%	0
7M	Hedged	10,534	\$10,246,881	34%	973
7M	UnHedged	0	\$0	0%	0
<b>Total Cattle</b>		<b>31,147</b>	<b>\$30,319,921</b>	<b>100%</b>	<b>973</b>

As of the 3/31/2020 cutoff date, the cattle inventory consisted of 31,147 head at both locations, valued at \$30.3M. As cattle are purchased, they are processed into the yard, and given an ear tag for identification. The cattle are not branded. High Plains software system is used to track cattle inventory, movements and sales. Since the inspector was not able to view cattle, inventory sheets were relied upon to validate headcounts and weights by lot number as well as prior month's inventory, to check for reasonable weight gain and consistent reporting. Cattle are valued for borrowing base reporting using the Cattle Fax Texas regional month end price. At the time, both steers and heifers weighed from 600-850 pounds. Inspector tested the pricing model and found cattle to be reasonably priced. However, as cattle are purchased, they are contracted for sale to Riley Livestock, for given head counts in finish months at specified weights. Given the approved credit agreement, cattle are considered contracted and advanced at 85%. The Client supplied a sampling of signed contracts for review, noting headcount, sex, weight, price along with delivery terms. The main out weight target for steers is 750 pounds and 725 for heifers. The primary off taker has been Friona Industries and inspector inquired if they still would be going forward. The Client indicated that since Riley's are only one of a few procurement agents for Friona, they are expected to take all current inventory in the coming months as they are low on inventory verses last fall/winter which caused a backlog for the Client. If Friona does not take the cattle, Riley is still responsible for buying the cattle, but with many large feeders in the area, risk would be low in finding a new off taker.

The Client also custom backgrounds cattle that are owned by Friona Industries and a few other, smaller local ranchers. As Friona ships cattle into the McClain facility, the Client provides feed and services, growing the cattle until ready to ship to one of Friona's yards, very similar to how he handles his owned cattle. When the cattle are shipped, Friona pays the Client a feed bill. These cattle are ear tagged differently for identification as well as branded with the FI brand.

The Client uses Jim Simpson, Palo Duro Consulting, for feeding rations consulting and services.

**Feed and Grain Inventory*****Inventory Summary Report Insert***

<i>Inventory Description</i>	<i>Unit</i>	<i>Quantity</i>	<i>\$/Unit</i>	<i>\$ Value</i>	<i>% Total</i>
Grains	Ton	296	\$ 188.27	\$55,729	7%
Hay	Ton	528	\$ 141.16	\$74,530	10%
Ingredients	Ton	587	\$ 130.29	\$76,479	10%
Silages	Ton	10,056	\$ 54.09	\$543,948	72%
<b>Total Inventory</b>				<b>\$750,686</b>	<b>100%</b>

Feed on hand consists of silage, flaked corn, hay, wet distillers and supplement for feed rations. All commodities are purchased and not grown on site. As the Client is invoiced for feed, ACH payment is made to the vendor to keep payables current. Commodity levels are intended to be kept minimal and received more just in time, to minimize the amount of capital used. Since the cattle are fed a growing ration versus a finish ration, this is easier for the Client to accomplish. As commodities come in during the month, they are inventoried in the High Plains system. Then as daily usage occurs, inventory levels are reduced, keeping a rolling inventory level. This is checked with a count at the end of the month by employees.

**Accounts Receivable (A/R)**

**ACCOUNTS RECEIVABLE SUMMARY**

<b>Accounts Receivable</b>	<b>\$ Amount</b>	<b>%</b>
Packer A/R	\$0	0%
Feed A/R	\$493,728	18%
Trade A/R	\$2,254,636	82%
<b>Total</b>	<b>\$2,748,363</b>	<b>100%</b>

**Ineligible/Adjustments**

	<b>Company</b>	<b>Credit Agmt.</b>	<b>Inspection</b>
Trade A/R	\$ -	\$ (350,000)	\$ (350,000)
<b>Net Eligible A/R</b>		<b>2,398,363</b>	<b>2,398,363</b>

Accounts receivable totaled \$2,748,363 as submitted. The receivables are primarily made up of cattle purchases by Riley Livestock as well as the feed bill due from Friona Industries and two other ranchers. The Client supplied bank documentation to validate the funds had been received within the first two weeks of April. The Friona money will be received once the cattle are shipped, per the approved credit agreement. There was one other receivable from 7M to McClain for cattle of \$1,500,000, considered an inter-company transaction. Client explained this was for cattle purchases by McClain but were shipped to 7M, so a transfer of dollars was needed at month end. However, upon validating the payables for both, the entry was only recorded as \$1,150,000. After review, the Client discovered it was an entry error and the correct amount was the \$1,150,000. Therefore, an adjustment of (\$350,000) will be made to the accounts receivables category, resulting in a total net eligible receivables at \$2,398,363.

Overall, the inspector considers management of the Client's A/R portfolio to be good at this time he just needs to double check his work.

**Demand Deposit Accounts/Book Overdraft/Outstanding Pending Transactions**

<b>Cash Accounts</b>					
<b>Company</b>	<b>Bank</b>	<b>Type</b>	<b>Reconciled Statement Detail</b>	<b>Company Reported</b>	<b>Difference</b>
McClain Feedyard	Rabo LOC	Outstanding Checks	292,187	292,187	0
7M Cattle Feeders	Rabo LOC	Outstanding Checks	63,303	32,676	30,627
<b>Total</b>			<b>355,490</b>	<b>324,863</b>	<b>30,627</b>

Cash accounts indicated balances (\$324,863). The Client holds two Mechanics Bank checking accounts for each facility. Each month, outstanding transactions are reconciled using QuickBooks, then deducted from the balance. Inspector obtained accounts statements from Mechanics Bank and the Client supplied the QuickBooks reconciliation summary. Upon review, it was discovered from the 7M reconciliation, that outstanding checks totaled \$63,303 versus the \$32,676 as submitted. The Client realized that the BBC had not been updated from the prior month with this value and was in error. This has occurred before, so Client does provide the reconciliation statement with the borrowing base each month. An adjustment of (\$30,627) was made to the Outstanding Transactions category, resulting in a total outstanding balance of \$355,490

**Related Payables and Liabilities**

Accounts payable reported by the Company totaled \$1,150,000. This consisted of one cattle payable from 7M to McClain for an inter-company transfer, as mentioned in the A/R section above. As feed and miscellaneous expenses are received, an ACH payment is made, keeping payables current.

The inspector's review of the Company's A/P noted no concerns.

### Loan Balance

	Submitted	Bank	Difference
<b>7M</b>	\$ 7,236,405	\$ 7,142,854	\$ 93,551
<b>McClain</b>	\$ 15,052,017	\$ 15,076,847	\$ (24,830)
<b>Total</b>	\$ 22,288,422	\$ 22,219,700	\$ 68,721

In reviewing the loan balance and accrued interest submitted by the Client compared to Bank supplied balances, a discrepancy was found for both accounts. Upon review with the Client, it appears the balances submitted were as of the day the borrowing base was completed, April 14 instead of the cutoff date, March 31, 2020. The 7M balance was over stated by \$93,551 while the McClain balance was understated by \$24,830. An adjustment was made to the borrowing base for \$68,721, reducing the loan balance down to \$22,219,700.

### Insurance

Insurance documentation was provided during the inspection. Coverage is provided by The Hartford, with policy number 87LST743096 for McClain and 87LST746168 for 7M. Both policies are current and good until cancelled with coverage up to \$10,000,000 for each location. CRT should review the policies, as not specially clear if Rabo AgriFinance is listed as a loss payee. **(See Recommendations)**

### Environmental Observations

The Company reported that they are in compliance with all air and water quality regulations and currently works Enviro-Ag Engineering, Inc, Amarillo, TX as the environmental consultant. Client provided active CAFO permits for each location, TXG921265 – McClain and TXG921550 -7M and are currently on file with RAF due to recent facility appraisals.

No environmental concerns were noted during the inspection.

## **RECOMMENDATION RESPONSE**

Recommendations are defined in this report as either: (Green-Level 1) for information only and no specific action needs to take place, (Amber Level 2) CRT will need to present to Credit/AFCID the resolution of the recommendation by next scheduled internal review (LSR, semi-annual review or annual review), or (Red Level 3) CRT will need to present to Credit/AFCID the resolution of the recommendation within 45 days of the inspection report being issued. Recommendations will be entered into the exception system with a monthly report of outstanding recommendations sent to Credit by Team Lead. Response and resolution may be sent to the AFCID mailbox fm.us.RAF AFCID.

## **RECOMMENDATIONS**

### **1. Recommendation – 7M Cattle Feeders & McClain Feedyard (Inspection Frequency): Individual Area of Concern**

**Action:** Current policy states annual inspections to be completed by AFCID. Unless notified otherwise by Credit, the next inspection will be scheduled for March 2021 to supply credit with an updated review prior to the June 2021 Renewal.

### **2. Recommendation – 7M Cattle Feeders & McClain Feedyard (Insurance): Individual Area of Concern**

**Action:** CRT should review Hartford insurance policy to clarify RAF as Loss Payee

## **APPENDIX**

Attachment 1 – Borrowing Base Summary



TM Cattle Feeders, Inc., McClain Feed Yard, Inc.Attachment 1**COMBINED BORROWING BASE SUMMARY**  
03/31/20

<b>Description</b>	<b>Company Reported</b>	<b><u>Gross Collateral</u></b>				<b><u>Loanable Collateral</u></b>		
		<b>Credit Agmt.</b>	<b>Inspection</b>			<b>Company Reported</b>	<b>Credit Agmt.</b>	<b>Inspection</b>
<i>Cattle - Hedged</i>	\$30,319,921	\$30,319,921	\$30,319,921	85%		\$25,771,933	\$25,771,933	\$25,771,933
<i>Cattle - UnHedged</i>	\$0	\$0	\$0	75%		\$0	\$0	\$0
<b>Total Livestock</b>	<b>\$30,319,921</b>	<b>\$30,319,921</b>	<b>\$30,319,921</b>			<b>\$25,771,933</b>	<b>\$25,771,933</b>	<b>\$25,771,933</b>
<i>Feed &amp; Grain Inventory</i>	\$750,686	\$750,686	\$750,686	75%		\$563,014	\$563,014	\$563,014
<i>Accounts Receivable</i>	\$2,748,363	\$2,398,363	\$2,398,363	80%		\$2,198,691	\$1,918,691	\$1,918,691
<i>Demand Deposit Account</i>	\$0	\$0	\$0	100%		\$0	\$0	\$0
<i>Outstanding Transactions</i>	\$324,863	\$355,490	\$355,490	100%		\$324,863	\$355,490	\$355,490
<i>Accounts Payable</i>	\$1,150,000	\$1,150,000	\$1,150,000	100%		\$1,150,000	\$1,150,000	\$1,150,000
<b>Eligible Assets</b>	<b>\$32,344,107</b>	<b>\$31,963,480</b>	<b>\$31,963,480</b>			<b>\$27,058,775</b>	<b>\$26,748,148</b>	<b>\$26,748,148</b>
<b>Loans Outstanding</b>	<b>\$22,288,422</b>	<b>\$22,219,700</b>	<b>\$22,219,700</b>			<b>\$22,288,422</b>	<b>\$22,219,700</b>	<b>\$22,219,700</b>
<b>Net Collateral</b>	<b>\$10,055,686</b>	<b>\$9,743,780</b>	<b>\$9,743,780</b>			<b>\$4,770,353</b>	<b>\$4,528,448</b>	<b>\$4,528,448</b>